

DILLON COUNTY, SOUTH CAROLINA
FINANCIAL STATEMENTS
JUNE 30, 2011

DILLON COUNTY, SOUTH CAROLINA
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Year Ended June 30, 2011

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

County Council
Dillon County
Dillon, South Carolina

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dillon County, South Carolina (the County) as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note IV, section H to the financial statements, during the year ended June 30, 2011, management discovered certain errors in the prior years' financial statements. Accordingly, net assets as of June 30, 2010 have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Required Supplementary Information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about

the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The County has not presented a Management's Discussion and Analysis, which is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Columbia, South Carolina
November 14, 2011

Clark Erustace Wagner, CPA, PA

BASIC FINANCIAL STATEMENTS

DILLON COUNTY, SOUTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 8,952,782
Investments	4,055,993
Receivables, net of allowance for doubtful accounts	2,702,318
Prepays	94,674
Inventories	49,548
Deposits	50,000
Due from others	321,834
Capital assets not being depreciated	
Construction in progress	524,018
Land	1,359,999
Capital assets, net of accumulated depreciation	
Buildings and improvements	11,555,849
Heavy equipment and vehicles	1,801,164
Equipment and furnishings	542,228
Infrastructure	5,029,917
Total assets	<u>37,040,324</u>
LIABILITIES	
Accounts payable	476,100
Accrued salaries and payroll withholdings	440,290
Accrued interest	23,536
Due to other funds	202,862
Unearned revenue	206,600
Obligation for other post-employment benefits	482,193
Noncurrent liabilities:	
Due within one year	1,679,357
Due in more than one year	6,139,866
Total Liabilities	<u>9,650,804</u>
NET ASSETS	
Invested in capital assets, net of related debt	17,624,477
Restricted for :	
Capital projects	2,457,744
Debt service	1,215,274
Other	871,871
Unrestricted	5,220,154
Total net assets	<u><u>\$ 27,389,520</u></u>

The accompanying notes are an integral part of these statements.

DILLON COUNTY, SOUTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Total Governmental Activities
Governmental activities:					
General government administration	\$ 3,440,664	\$ 115,886	\$ 25,280	\$ -	\$ (3,299,498)
Administration of justice	1,139,782	1,051,202	-	32,567	(56,013)
Public safety and law enforcement	8,418,232	2,312,714	476,342	-	(5,629,176)
Public works	1,822,289	968,791	724,726	-	(128,772)
Sanitation	1,771,773	2,149,753	9,279	-	387,259
Economic development	729,872	-	663,017	-	(66,855)
Social services, health and welfare	237,999	16,441	38,954	-	(182,604)
Culture and recreation and education	710,142	25,826	101,073	-	(583,243)
Interest on long-term debt	151,956	-	-	-	(151,956)
Total governmental activities	18,422,709	6,640,613	2,038,671	32,567	(9,710,858)
General revenues					
Property taxes					7,323,802
Sales taxes					2,073,308
Franchise fees					47,613
Grants and contributions not restricted to specific programs					1,256,774
Unrestricted interest income					57,841
Net loss on disposition of capital assets					(335,649)
Other					49,878
Total general revenues and transfers					10,473,567
Change in net assets					762,709
Net assets - beginning of year, restated					26,626,811
Net assets - end of year					\$ 27,389,520

The accompanying notes are an integral part of these statements.

DILLON COUNTY, SOUTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 8,625,082	\$ 326,043	\$ 1,657	\$ 8,952,782
Investments	4,055,993	-	-	4,055,993
Receivables, net of allowance for doubtful accounts	2,633,309	-	69,009	2,702,318
Due from other funds	330,390	2,131,701	2,070,807	4,532,898
Inventories	49,548	-	-	49,548
Prepays	94,674	-	-	94,674
Deposits	50,000	-	-	50,000
Total assets	\$ 15,838,996	\$ 2,457,744	\$ 2,141,473	\$ 20,438,213
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 476,100	\$ -	\$ -	\$ 476,100
Accrued salaries and payroll withholdings	440,290	-	-	440,290
Unearned revenue	206,600	-	-	206,600
Deferred revenue	279,201	-	45,772	324,973
Due to other funds	4,405,370	-	8,556	4,413,926
	5,807,561	-	54,328	5,861,889
Fund Balances:				
Nonspendable:				
Inventories	49,548	-	-	49,548
Prepays	94,674	-	-	94,674
Deposits	50,000	-	-	50,000
Restricted for:				
Administration of justice	-	-	136,167	136,167
Public safety and law enforcement	-	-	744,260	744,260
Debt service	-	-	1,215,274	1,215,274
Capital projects fund	-	2,457,744	-	2,457,744
Unassigned	9,837,213	-	(8,556)	9,828,657
Total fund balances	10,031,435	2,457,744	2,087,145	14,576,324
Total liabilities and fund balances	\$ 15,838,996	\$ 2,457,744	\$ 2,141,473	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds				20,813,175
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds				
Property taxes				324,973
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:				
Accrued compensated absences				(421,039)
Other post-employment benefits				(482,193)
Provision for post-closure costs of municipal solid waste landfill				(4,209,486)
Accrued interest				(23,536)
Bonds and leases payable				(3,188,698)
Net assets of governmental activities				\$ 27,389,520

The accompanying notes are an integral part of these statements.

DILLON COUNTY, SOUTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes				
Property and vehicle and fire fees	\$ 7,492,553	\$ -	\$ 1,141,337	\$ 8,633,890
Sales	2,073,308	-	-	2,073,308
Intergovernmental revenue	2,722,001	-	464,156	3,186,157
Gifts and grants	-	242,429	31,896	274,325
Licenses and permits	367,755	-	-	367,755
Charges for services	3,925,249	-	-	3,925,249
Fines, fees, and forfeitures	766,227	-	217,766	983,993
Interest income	57,841	-	-	57,841
Other	53,534	-	-	53,534
Total revenues	17,458,468	242,429	1,855,155	19,556,052
Expenditures				
Current				
General government administration	3,001,028	-	-	3,001,028
Administration of justice	1,130,160	-	1,676	1,131,836
Public safety and law enforcement	7,333,817	612	140,617	7,475,046
Public works	1,101,648	9,029	-	1,110,677
Sanitation	2,101,877	-	-	2,101,877
Economic development	335,419	-	415,603	751,022
Social services, health and welfare	235,709	-	-	235,709
Culture and recreation and education	633,198	-	-	633,198
Debt Service				
Principal retirement	91,577	-	1,051,079	1,142,656
Interest	9,211	-	140,314	149,525
Capital Outlay				
General government administration	62,825	-	-	62,825
Public safety and law enforcement	102,000	44,436	39,698	186,134
Public works	864,977	-	-	864,977
Economic development	-	37,450	-	37,450
Total expenditures	17,003,446	91,527	1,788,987	18,883,960
Excess (deficiency) of revenues over (under) expenditures	455,022	150,902	66,168	672,092
OTHER FINANCING SOURCES				
Transfers	82,563	-	(82,563)	-
Sale of capital assets	11,367	-	-	11,367
Proceeds of long-term debt	371,310	-	-	371,310
Total other financing sources	465,240	-	(82,563)	382,677
Net change in fund balances	920,262	150,902	(16,395)	1,054,769
Fund balances, beginning of year, restated	9,111,173	2,306,842	2,103,540	13,521,555
Fund balances, end of year	\$ 10,031,435	\$ 2,457,744	\$ 2,087,145	\$ 14,576,324

The accompanying notes are an integral part of these statements.

DILLON COUNTY, SOUTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Net change in fund balances -- total governmental funds (page 8) \$ 1,054,769

Amounts reported for governmental activities in the statement of activities (page 6) are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense in order to allocate capital outlays over the lives of the applicable assets

Capital asset purchases expensed in governmental funds but capitalized by governmental activities	1,151,386
Depreciation expense reported in governmental activities	(2,084,069)
Loss on disposition of capital assets	(347,016)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Property taxes	(34,985)
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Issuance of debt	(371,310)
Repayment of long-term debt	1,142,656

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued compensated absences	20,191
Provision for post-closure costs of municipal solid waste landfill	379,886
Other post-employment benefits	(146,368)
Accrued interest	(2,431)

Change in net assets of governmental activities (page 6)	\$ 762,709
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The accompanying notes are an integral part of these statements.

DILLON COUNTY, SOUTH CAROLINA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

Assets	
Cash and cash equivalents	\$ 13,037,109
Investments	-
Due from others	31,709
Due from other funds	<u>202,862</u>
	<u><u>\$ 13,271,680</u></u>

Liabilities	
Due to Dillon County school districts	\$ 11,812,145
Due to others	1,137,701
Due to other funds	<u>321,834</u>
	<u><u>\$ 13,271,680</u></u>

The accompanying notes are an integral part of these statements.

DILLON COUNTY, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Dillon County, South Carolina, is a political subdivision of the State of South Carolina. The County operates under a Council-Administrator form of government and is governed by an elected seven-member council, one of whom is the chair. The council is the legislative body of the County and is responsible for determining the policies and direction of the County government. The administrator is responsible for the County's daily operations.

As required by accounting principles generally accepted in the United States of America (GAAP), basic financial statements of governmental units include not only information about the reporting, (i.e., primary) government but also about component units. Component units are organizations for which the primary government is financially accountable or organizations which are sufficiently significant to the primary government that their exclusion could cause the financial statements to be misleading or incomplete. Based on the applicable criteria, the County has determined it has no component units and that it is not a component unit of another entity. Therefore, the County reports as a primary entity.

B. Government-wide and Fund Financial Statements

In accordance with reporting standards established by the Government Accounting Standards Board (GASB), Dillon County's financial statements are presented from two perspectives, the government-wide perspective and the fund perspective.

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report information on all non-fiduciary activities (collection of property taxes for towns and schools are among the County's fiduciary activities) of the primary government and its component units, if any. Net assets are calculated based on information on all the County's assets and liabilities, including property and equipment and long-term debt. For the most part, the effect of any inter-fund activity is removed from these statements.

In these statements, governmental activities, which are normally supported by taxes and intergovernmental revenues, are distinguished from any business type activities in which the government may be engaged and which rely on fees and charges for support. Likewise, the primary government is reported separately from any legally separate component units for which the primary government is financially accountable. These distinctions are not applicable to Dillon County, which has neither component units nor business type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses, including depreciation of property and equipment, are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items which are not properly included among program revenues are reported as general revenues.

The fund financial statements include separate financial statements for governmental and fiduciary funds, groupings of accounts used to control resources that have been segregated for specific activities or objectives. Major individual governmental funds are reported as separate columns in the fund financial statements.

Accompanying the financial statements prepared using the two perspectives is an explanation of the differences between them. The governmental fund balance sheet on page 7 includes a reconciliation of the total fund balance for all governmental funds to total net assets of governmental activities reported in the government-wide statement of net assets.

DILLON COUNTY, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

A reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities is included at page 9.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when applicable cash is collected or paid. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The following are the County's major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* is used to account for the acquisition and construction of major capital facilities and to account for collection and distribution of the proceeds of a temporary local option capital projects sales tax which was enacted in 2003.

Fiduciary funds are used to report assets held by the County in a trustee or agency capacity and which, therefore, can't be used to support the County's own programs. *Agency funds*, a subset of fiduciary funds, are used to account for situations where the government's role is merely custodial. Dillon County uses agency funds to account for taxes collected on behalf of other governments and for funds escrowed for their respective programs. Fiduciary funds are not included in the County's government-wide financial statements.

D. Assets, Liabilities and Net Assets or Equity

Cash and cash equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. All investments are reported at fair value.

Investments

The County's investments are made in accordance with State of South Carolina statutes. The County reports its investments at fair value which is normally determined by quoted market prices.

DILLON COUNTY, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for any that are uncollectible. The property tax receivable allowance is equal to 12.7 percent of outstanding property taxes at June 30, 2011.

Inventories and prepaid items

Inventories are valued at lower of cost or market using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Inventories in the general fund consist of fuel, cleaning supplies and postage. Prepaid items consist of insurance coverage paid for in advance.

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items) and are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as movable personal property with a unit cost in excess of \$5,000 and an estimated useful life in excess of two years and depreciable land improvements, buildings and improvements, and tangible assets costing in excess of \$50,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and land improvements and 5 to 10 years for machinery, equipment, and vehicles. A half year of depreciation is taken the year the asset is placed in service and in the year of disposition.

Inter-fund Receivables and Payables

Short-term advances between funds are accounted for in the appropriate inter-fund receivable and payable accounts as "due to/from" funds.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been met. Grants received before applicable expenditures have been made are recorded as deferred revenue.

Compensated Absences

It is the County's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the lives of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

DILLON COUNTY, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Governmental Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the applicable governmental fund. The classifications are as follows:

- *Nonspendable:* The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form (e.g., inventories and prepaid amounts), or are legally or contractually required to be maintained intact.
- *Restricted:* Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation (i.e., County ordinances). Enabling legislation authorizes the County to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the County can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.
- *Committed:* The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Council. Those committed amounts cannot be used for any other purpose unless County Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts previously. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by County Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- *Assigned:* Amounts in the assigned fund balance classification are intended to be used by the County for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by County Council or by a County official or body to which Council has delegated the authority to assign amounts to be used for specific purposes.
- *Unassigned:* Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or

DILLON COUNTY, SOUTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net Assets

The County's net assets are classified as follows:

Invested in capital assets: This amount is County's total investment in capital assets, net of any outstanding debt obligations related to those assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets.

Restricted net assets: Restricted net assets include resources in which the County is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties such as state laws and lenders.

Unrestricted net assets: Unrestricted net assets represent resources which may be used to meet current expenses for any purpose.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Taxes

Taxes on real property are assessed as of January 1, levied the following September, due January 15, and become delinquent March 15. Liens attach to the property at the time the taxes are levied. The levy date for motor vehicle taxes is the first day of the month in which the motor vehicle license expires. These taxes are due by the last day of the same month.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and the debt service fund. Project length budgets are adopted for the capital projects fund. All annual appropriations lapse at fiscal year end.

Each year, the County administrator drafts a budget which is presented to County Council for review and approval. The Council holds public hearings and adopts either the budget or an emergency ordinance for the payment of essential services or supplies no later than June 30. An annual millage rate to fund the budgeted expenditures is established by the County Auditor and approved by County Council as part of the budget process.

The appropriated budget is prepared by fund and department. County department heads may make certain transfers of appropriations within their own departmental budgets without approval of Council, and the County Administrator may make certain transfers within departments without approval of Council. The County Administrator may not make changes between departments without Council approval. The legal level of budgetary control is the department level.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2011, general fund expenditures exceeded appropriations by \$716,338. The over-expenditures were funded by revenue which exceeded budgeted amounts and proceeds from a debt refinancing.

DILLON COUNTY, SOUTH CAROLINA
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C. Fund Deficits

At June 30, 2011, the Accommodations Tax special revenue fund had a deficit of \$8,556.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

It is the County's policy to follow South Carolina state law applicable to local government deposits and investments. This policy limits investments to:

- (a) Obligations of the United States and agencies thereof;
- (b) General obligations of the State of South Carolina or any of its political units;
- (c) Savings and Loan Associations to the extent that the same are insured by an agency of the Federal Government;
- (d) Certificates of Deposit and funds in deposit accounts with banking institutions provided that such certificates and funds in deposit accounts are collaterally secured by securities of the type described in (a) and (b) above, held by a third party as escrow agent, or custodian of a market value, not less than the amount of the certificates or funds in deposit accounts so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government;
- (e) Collateralized repurchase agreements when collateralized by securities as set forth in (a) and (b) above and held by the governmental entity or a third party as escrow agent or custodian; and
- (f) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), and (c) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

The County's cash investment objectives are preservation of capital, liquidity, and yield. In accordance with its objectives and South Carolina law, the County currently or in the past year has used the following investments:

- (1) Bank certificates of deposit; and
- (2) South Carolina Pooled Investment Fund (the "Pool") investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. The Pool is a 2a 7-like pool which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but has a policy that it will operate in a manner consistent with the SEC's Rule 2a 7 of the Investment Company Act of 1940. In accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"*, investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1. Separate financial statements for the Fund can be obtained by contacting Shakun Tahiliani, Senior Assistant State Treasurer, State of

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South Carolina, P.O. Box 11778, Columbia, South Carolina 29211; telephone (803) 734-2641; facsimile (803) 734-2697; e-mail shakun.tahiliani@sto.sc.gov.

Cash deposits are subject to custodial credit risk, which, in the case of deposits, is the risk that in the event of a bank failure, the County's deposits may not be returned to it. It is the policy of the County to obtain adequate collateralization on all deposits that exceed FDIC insurance coverage. As of June 30, 2011, the County had cash on hand of \$800 and cash deposits in demand accounts totaling \$22,275,279. Of the deposit amounts, \$1,523,072 was covered by FDIC insurance. The balance was collateralized by federal agency securities held by a third party agent in the County's name. The County had \$98,711 at the South Carolina Pooled Investment Fund.

At year end, the County's investments consisted of \$4,055,993 bank certificates of deposits. These investments are subject to the following risks:

Interest rate risk. Interest rate risk is the risk that fair value may decline when interest rates decline. Such risk can be mitigated by placing money only in instruments with short-term maturities. The Local Government Investment Pool and short term certificates of deposit meet this criterion.

Credit risk. Credit risk is the risk that the holder might not be able to liquidate the investment when cash is required. Both the Pool and the bank certificates of deposit can be liquidated on demand.

Custodial Credit risk. Credit risk is the risk that investment principal may not be recovered if issuers of the investment securities fail. The State Treasurer's investment pool is not rated, but generally, investments in the State Treasurer's investment pool are collateralized by debt securities in corporate obligations, state or political subdivision obligations of investment grade or higher quality and in federal agency securities. Under terms of the same agreements applicable to the County's cash deposits, the bank certificates of deposit are collateralized by federal agency securities held by a third party agent in the County's name.

Concentration of Credit Risk. Investments which are concentrated in only a few securities or industries are subject to concentration of credit risk. However, investments issued or explicitly guaranteed by the U.S government and investments in mutual funds and external investment pools are excluded from this disclosure requirement. The Pool is such an investment, and the certificates of deposit are collateralized by federal agency securities held by a third party agent in the County's name.

B. Receivables, Deferred Revenue and Unearned Revenue

Receivables as of year end for the government's individual major funds, including the applicable allowances for uncollectible accounts are as follows:

	General	Capital	Debt	Special	Total
	Fund	Projects	Service	Revenue	Governmental
	Fund	Fund	Fund	Fund	Funds
Taxes					
Property	\$ 481,605	\$ -	\$ 81,211	\$ -	\$ 562,816
Fees	12,815	-		-	12,815
Sales	1,054,697	-		-	1,054,697
Accounts	3,452,994	-		-	3,452,994
Intergovernmental	720,555	-		801	721,356
Gross receivables	5,722,666	-	81,211	801	5,804,678
Less, allowance for uncollectibles	(3,089,357)	-	(13,003)	-	(3,102,360)
Net total receivables	\$ 2,633,309	\$ -	\$ 68,208	\$ 801	\$ 2,702,318

DILLON COUNTY, SOUTH CAROLINA
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Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes and fees receivable (general fund)	\$ 279,201	\$ -
Delinquent property taxes and fees receivable (debt service fund)	45,772	-
Unearned grant revenue (general fund)	-	206,600
	<u>\$ 324,973</u>	<u>\$ 206,600</u>

C. Capital Assets

Capital asset activity for the County for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets not being depreciated:					
Construction in progress	\$ 590,423	\$ 524,019	\$ -	\$ (590,424)	\$ 524,018
Land	1,353,999	6,000	-		1,359,999
Total capital assets not being depreciated	1,944,422	530,019	-	(590,424)	1,884,017
Capital assets being depreciated:					
Buildings and improvements	27,420,571	66,336	-	461,190	27,948,097
Heavy equipment and vehicles	8,556,663	502,981	2,619,590	(5,000)	6,435,054
Equipment and furnishings	4,588,195	21,787	-	5,000	4,614,982
Infrastructure	7,484,802	30,263	-	129,234	7,644,299
Total capital assets being depreciated	48,050,231	621,367	2,619,590	590,424	46,642,432
Less accumulated depreciation for:					
Buildings and improvements	15,687,297	704,951	-	-	16,392,248
Heavy equipment and vehicles	6,249,780	683,654	2,272,574	(26,970)	4,633,890
Equipment and furnishings	3,857,047	215,632	-	75	4,072,754
Infrastructure	2,107,655	479,832	-	26,895	2,614,382
Total accumulated depreciation	27,901,779	2,084,069	2,272,574	-	27,713,274
Total capital assets being depreciated, net	20,148,452	(1,462,702)	347,016	590,424	18,929,158
Governmental activities capital assets, net	<u>\$ 22,092,874</u>	<u>\$ (932,683)</u>	<u>\$ 347,016</u>	<u>\$ -</u>	<u>\$ 20,813,175</u>

Depreciation expense was charged to the County's governmental functions/programs as follows:

General government administration	\$ 288,038
Administration of justice	12,240
Public safety and law enforcement	937,524
Public works	708,567
Sanitation	54,831
Social services, health and welfare	2,883
Culture and recreation	79,986
Total depreciation expense - governmental activities	<u>\$ 2,084,069</u>

DILLON COUNTY, SOUTH CAROLINA
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D. Inter-fund Receivables and Payables

Inter-fund balances arise because the County Treasurer utilizes a cash pool to maximize earnings. Inter-fund balances at June 30, 2011 were:

Receivable Fund	Payable Fund	Amount
Debt Service Fund	General Fund	\$ 1,192,838
Special Revenue Fund	General Fund	877,969
Capital Projects Fund	General Fund	2,131,701
Fiduciary Fund	General Fund	202,862
General Fund	Special Revenue Fund	8,556
General Fund	Fiduciary Fund	321,834
		<u>\$ 4,735,760</u>

E. Transfers In and Out

During the year, Workforce Investment Act special revenue fund transferred \$31,928 to the general fund and the Federal Grants special revenue fund transferred \$50,635 to the general fund. Both of these transfers were made to cover costs incurred by the general fund.

F. Leases

Operating Leases

The County leases real property under terms of non-cancelable operating leases with terms in excess of one year. Total payments under terms of these leases during 2011 were \$3,625. Future minimum lease payments under terms of these leases are as follows:

Year Ending June 30,	Amount
2012	\$ 3,625
2013	3,625
Thereafter	-
Total	<u>\$ 7,250</u>

Capital Leases

The County has entered into lease agreements to finance acquisition of buildings, vehicles and heavy equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. Assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Buildings and improvements	\$ 3,759,324
Heavy equipment	371,310
Less: accumulated depreciation	<u>(1,622,956)</u>
Total	<u>\$ 2,507,678</u>

Future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were:

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Year Ending June 30,	Governmental Activities
2012	\$ 232,432
2013	42,904
2014	42,904
2015	42,904
2016	225,028
Thereafter	-
Total minimum lease payments	586,172
Less: amount representing interest	(44,224)
Present value of minimum lease payments	<u>\$ 541,948</u>

G. Long-term Debt

General Obligation Bonds Payable. The County has issued general obligation bonds to provide for construction and purchase of capital assets. General obligation bonds have been issued only for general government activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds outstanding as of June 30, 2011 are as follows:

General obligation bond, Series 2005A, payable in annual installments varying from \$72,562 to \$75,124, including interest at 3.66%	\$ 140,000
General obligation bond, Series 2005B, payable in annual installments varying from \$166,320 to \$168,367, including interest at 3.95%	315,000
General obligation bond, Series 2008, payable in annual installments varying from \$186,232,180 to \$190,772, including interest at 3.12%	530,000
General obligation bond, Series 2009, payable in annual installments varying from \$64,874 to \$73,886, including interest at 2.68%	505,000
General obligation bond, Series 2009, payable in annual installments varying from \$151,186 to \$169,066, including interest at 4.25%	843,750
	<u>\$ 2,333,750</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 570,625	\$ 83,495	\$ 654,120
2013	585,625	62,907	648,532
2014	380,625	41,752	422,377
2015	205,625	28,608	234,233
2016	220,625	20,811	241,436
2017-2019	370,625	18,351	388,976
Thereafter	-	-	-
Total	<u>\$ 2,333,750</u>	<u>\$ 255,924</u>	<u>\$ 2,589,674</u>

Special Revenue Bonds Payable. The County has issued special source revenue bonds to finance construction of

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infrastructure in an industrial park and at a commercial site. Under terms of these bonds, the government has pledged income from fees in lieu of taxes derived from the acquired or constructed assets to pay debt service. The County's Revenue bond outstanding at June 30, 2011 was as follows:

Special source revenue bond, Series 2007, payable in annual installments varying from \$78,803 to \$93,460, including interest at 3.74%, from net fee payments in lieu of taxes derived from Multi-County Industrial Park in excess of amounts not otherwise pledged to secure general obligation debt	\$ 313,000
	<u>\$ 313,000</u>

Annual debt service requirements to maturity for the outstanding special source revenue bond are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 79,000	\$ 11,546	\$ 90,546
2013	79,000	7,632	86,632
2014	79,000	5,718	84,718
2015	76,000	2,803	78,803
Thereafter	-	-	-
Total	<u>\$ 313,000</u>	<u>\$ 27,699</u>	<u>\$ 340,699</u>

Closure and Post Closure Costs of Municipal Solid Waste Landfill

State and federal laws and regulations require the County to place a final cover on its landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. In accordance with state law, the County closed its municipal solid waste landfill in fiscal 1996. The County closed its industrial waste landfill in fiscal 2009. The County continues to operate its C&D landfill which it estimates is at 50% of capacity.

Although closure and post closure care costs are paid only near or after the date that landfills stop accepting waste, the County reports a portion of these costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$4,209,486 reported as the accrual for landfill closure and post-closure at June 30, 2011 is calculated as follows:

Landfill Site	Percentage of Capacity Used	Estimated Costs Recognized			Balance	Number Of Years Remaining
		Closure	Post-closure	To Be Recognized	To Be Recognized	
Municipal Solid Waste	Closed	\$ -	\$ 923,098	\$ 923,098	\$ -	Closed
Industrial Waste	Closed	411,388	1,650,000	2,061,388	-	Closed
C&D	50%	400,000	825,000	1,225,000	825,000	5
Totals		<u>\$ 811,388</u>	<u>\$ 3,398,098</u>	<u>\$ 4,209,486</u>	<u>\$ 825,000</u>	

These amounts are based on what it would cost to perform all closure and post-closure care in fiscal year 2011 and are based on engineering estimates subject to change due to inflation, deflation, technology and/or applicable laws and regulations. The County anticipates that available resources will be the primary source of funds to pay the cost of closure and post-closure care. During fiscal 2011, the County expended \$137,428 in landfill closure and post-closure costs.

Changes in long-term liabilities. Long-term liability activity for the year ended June 30, 2011 was as follows:

DILLON COUNTY, SOUTH CAROLINA
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	Beginning Balance Restated	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 2,939,375	\$ -	\$ 605,625	\$ 2,333,750	\$ 570,625
Special source revenue bonds	469,414	-	156,414	313,000	79,000
Capital leases	551,255	371,310	380,617	541,948	218,344
Compensated absences	441,230	266,967	287,158	421,039	280,000
Provision for post closure costs of municipal solid waste landfill	4,589,372	-	379,886	4,209,486	531,388
Governmental activity long-term liabilities	\$ 8,990,646	\$ 638,277	\$ 1,809,700	\$ 7,819,223	\$ 1,679,357

IV. OTHER INFORMATION

A. Risk Management

The County is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and job related illnesses and accidents. The County pays premiums to a public entity risk pool for workman's compensation insurance and for property and casualty coverage. The public entity risk pool promises to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There has been no significant reduction in coverage and amounts of settlements have not exceeded coverage in any of the last three years.

The County is also subject to risks of loss from providing health, life, accident, dental, and other medical benefits to employees, retirees, and their dependents. The County has enrolled substantially all its employees in the State's health insurance plans administered by the South Carolina Budget and Control Board.

B. Pension Plan

County employees participate in either the South Carolina Retirement System (SCRS) or the South Carolina Police Officers Retirement System (PORS), depending on their particular duties. Both plans are administered by the South Carolina Retirement System and are classified as cost-sharing multiple-employer defined benefit plans, Public Employee Retirement Systems (PERS). SCRS and PORS provide retirement and disability benefits, cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions for SCRS are established pursuant to Section 9-1-20 of the 1976 South Carolina Code of Laws. Benefit provisions for PORS are established pursuant to Section 9-11-20 of the Code. The South Carolina Retirement System issues a publicly available stand-alone report, which may be obtained by writing to South Carolina Retirement System, P.O. Box 11960, Columbia, South Carolina 29211 or by calling 803-737-6800.

SCRS and PORS members are required to contribute 6.5% of their annual covered salaries, and the County is required to contribute at an actuarially determined rate. The current actuarially determined rates are 9.24% for the SCRS and 11.13% for the PORS. The contribution requirements of the plan members and the County are established and may be amended by the South Carolina General Assembly.

The County's contributions (which equaled required contributions) to the SCRS were \$443,800 for fiscal 2011, \$424,829 for fiscal 2010 and \$417,656 for fiscal 2009. The County's contributions (which also equaled required

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contributions) to the PORS were \$291,974 for fiscal 2011, \$261,096 for fiscal 2010 and \$260,534 for fiscal 2009.

C. Deferred Compensation Plans

Certain County employees participate in one of two optional deferred compensation plans which are available to them in conjunction with the State Retirement System. The multiple-employer plans, created under Internal Revenue Code Sections 457 and 401(k) are administered for the State Retirement System by third parties. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate their employment with the County. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

D. Other Post Employment Benefits

Plan Description

In fiscal 1994, Dillon County Council passed an ordinance to provide for a single-employer defined benefit post-retirement health benefit plan for retirees who meet certain length of service requirements. Employees with 28 consecutive years of service covered by the South Carolina Retirement System, employees with 25 years of consecutive service covered by the Police Officers Retirement System, and County Council members with 12 years of service are eligible to be covered under this plan. Benefits are effective at date of retirement or when the employee is eligible for retirement benefits. Among other provisions, qualifying employees are eligible to receive continuing health insurance coverage with the County paying the employer portion applicable to their pre-retirement health plan. The balance is paid by the retired employee. The County's regular insurance providers underwrite the retirees' policies. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. There is no stand-alone financial report for the plan.

Funding Policy

The plan was established and may be amended by County Council. The County currently finances the plan on a pay-as-you-go basis. During fiscal 2010, the County paid \$20,729 (approximately 33% of the total premiums) to cover current premiums for plan participants. Plan members receiving benefits contributed \$42,262, or approximately 67% of the total premiums, through their required contributions.

Annual OPEB Cost and Net OPEB Obligation

In the County's statement of activities, the annual cost (expense) for other post employment benefits (OPEB) is calculated based on the annual required contribution (ARC) of the employer, which is actuarially determined based on the requirements and parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. The ARC represents the amount of funding required that, if paid on an annual basis, is projected to cover the normal cost for each year plus the amount necessary to amortize any unfunded liability over a period not exceeding 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and any changes in the County's obligation under the plan:

Annual required contribution (ARC) for current year:	\$ 223,343
Adjustment to annual required contribution	(68,786)
Interest on unfunded OPEB obligation	<u>12,540</u>
Annual OPEB cost (expense)	167,097
Less, actual contribution	<u>(20,729)</u>
Increase in net OPEB obligation	146,368
Net liability for OPEB, beginning of year	<u>335,825</u>
Net liability for OPEB, end of year	<u><u>\$ 482,193</u></u>

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The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2010 and for 2009 (the first year of implementation of GASB Statement 45) were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 180,538	21.7%	\$ 180,538
2010	\$ 189,565	26.4%	\$ 335,825
2011	\$ 167,097	18.1%	\$ 482,193

Funded Status and Funding Progress

The funded status of the plan as of the year end was as follows:

Actuarial accrued liabilities (AAL):	\$ 2,175,486
Actuarial value of plan assets:	-
Unfunded AAL (UAAL):	\$ 2,175,486
Funded ratio:	0%
Covered payroll:	\$ 6,804,655
UAAL as a percentage of covered payroll:	32%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (i.e., the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The Projected Unit Credit Cost Method actuarial cost method was used to calculate the ARC, based on an assumed level percent of payroll funding and an assumed 4.5 percent rate of return on investments for the current year. The assumed general inflation rate was 3 percent. The assumed annual payroll growth was 3 percent. The assumed rate of annual increase in health costs varied from 5 to 8 percent. The actuarial methods and assumptions and calculations reflect a long-term perspective and are designed to reduce short-term volatility in actuarial accrued liabilities and in the actuarial value of assets.

E. Joint Venture

Dillon County is a participant in a joint venture with Marion and Marlboro Counties to develop an industrial park located in Dillon County. The three counties committed to contribute \$250,000 each to provide infrastructure to the park, a commitment Dillon County met in fiscal 2007. Additional funding for the park is coming from state grants and loans. Once the park is operating, the three counties will split equally all new tax revenues and expenses from the park for 20 years.

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F. Related Party Transactions

The County provides office space to several state agencies and the Dillon County Chamber of Commerce, all at no charge. The County provides office space to the City of Dillon in the City-County Complex building. In exchange for use of the space, the City pays one-third of the operating expenses of the building which totaled \$19,341 for fiscal 2011.

G. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute liabilities of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

H. Restatement adjustments

During the year, management determined that several errors were made in prior years' financial statements. In addition, as of July 1, 2010, the County implemented Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which, among other things, revised fund definitions. As a result, the County's E911 fund was moved to the general fund and the Drug Abuse Prevention special revenue fund was moved to the fiduciary fund. Management also restated its estimated cost for landfill closure and post-closure costs based on current financial resources being used for this purpose at its other landfills. Previous amounts were based on estimates generated as a result of studies performed by expert consultants. Actual costs appear to exceed what was estimated and thus the overall liability amount was restated.

These restatements are summarized as follows:

	Governmental Funds			Total	Total
	General	Special Revenue	Other Funds	Governmental Funds	Governmental Net Assets
Governmental funds:					
Understated LOST accruals	\$ 131,862	\$ -	\$ -	\$ 131,862	
Duplicate payment of pass-through to CBOE	27,215	-	-	27,215	
Overstated payables	14,966	-	-	14,966	
Move E911 fund to general fund	30,427	(30,427)	-	-	
Move Alcohol and Drug Abuse Prevention Fund to Fiduciary Fund	-	21,781	-	21,781	
	204,470	(8,646)	-	195,824	\$ 195,824
Fund balances, beginning of year, as originally stated	8,906,703	846,856	3,572,172	13,325,731	
Fund balances, beginning of year, restated	<u>\$9,111,173</u>	<u>\$ 838,210</u>	<u>\$3,572,172</u>	<u>\$ 13,521,555</u>	
Governmental activities:					
Adjust leases payable balance					(25,046)
Adjust estimated liability for landfill closure and post-closure costs					(2,592,140)
Governmental activities net assets, beginning of year, as originally stated					<u>29,048,173</u>
Governmental activities net assets, beginning of year, restated					<u>\$ 26,626,811</u>

I. Subsequent Event

Management has evaluated subsequent events through November 14, 2011 the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

DILLON COUNTY, SOUTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE --
BUDGET AND ACTUAL -- GENERAL FUND
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget- Over
	Original	Final	Amounts	(Under)
REVENUES				
Property taxes and vehicle fees	\$ 7,381,200	\$ 7,381,200	\$ 7,492,553	\$ 111,353
Sales taxes	1,670,000	1,670,000	2,073,308	403,308
Intergovernmental revenue	1,987,758	1,987,758	2,722,001	734,243
Licenses and permits	289,400	289,400	367,755	78,355
Charges for services	4,043,350	4,043,350	3,925,249	(118,101)
Fines, fees, and forfeitures	824,400	824,400	766,227	(58,173)
Interest income	40,000	40,000	57,841	17,841
Other	55,000	55,000	53,534	(1,466)
Total revenues	16,291,108	16,291,108	17,458,468	1,167,360
EXPENDITURES				
General government administration:				
Assessor	331,478	331,478	317,175	(14,303)
Audit	44,000	44,000	56,700	12,700
Auditor	95,621	95,621	90,110	(5,511)
City County building	40,000	40,000	60,128	20,128
Code enforcement/building inspection	140,310	140,310	124,823	(15,487)
Computer services/information technology	288,710	288,710	246,772	(41,938)
County attorney	51,500	51,500	62,440	10,940
County council	713,560	713,560	819,002	105,442
Delegation contingencies	-	-	-	-
Election/Registration	96,386	96,386	84,590	(11,796)
Insurance	573,707	573,707	256,900	(316,807)
Public building maintenance	399,790	399,790	353,102	(46,688)
Purchasing	71,390	71,390	65,098	(6,292)
Registration Board	53,515	53,515	76,460	22,945
Retirees health insurance	-	-	20,729	20,729
Treasurer	369,487	369,487	350,576	(18,911)
Miscellaneous	16,522	16,522	16,423	(99)
	3,285,976	3,285,976	3,001,028	(284,948)
Administration of Justice:				
Clerk of court	487,860	487,860	446,916	(40,944)
Judge expenses	5,500	5,500	2,257	(3,243)
Jurors	37,000	37,000	33,652	(3,348)
Law Library	20,000	20,000	24,061	4,061
Magistrates	359,583	359,583	325,646	(33,937)
Solicitor	70,000	70,000	84,425	14,425
Public Defender	54,000	54,000	54,000	-
Probate judge	172,208	172,208	159,203	(13,005)
	1,206,151	1,206,151	1,130,160	(75,991)

continued

DILLON COUNTY, SOUTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE --
BUDGET AND ACTUAL -- GENERAL FUND
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget- Over
	Original	Final	Amounts	(Under)
Public Safety and Law Enforcement:				
E911 Service	612,763	612,763	793,284	180,521
Ambulance service	983,251	983,251	980,409	(2,842)
Animal/litter control	124,684	124,684	116,645	(8,039)
Coroner	93,504	93,504	89,252	(4,252)
Detention Center	2,496,000	2,496,000	2,290,667	(205,333)
Disaster preparedness	81,404	81,404	81,217	(187)
Fire Department - #5	72,660	72,660	92,626	19,966
Fire Department - Latta	111,470	111,470	112,621	1,151
Fire Department - Dillon	208,130	208,130	197,725	(10,405)
Fire Department - Gaddy's	151,385	151,385	177,656	26,271
Fire Department - Lake View	149,080	149,080	143,186	(5,894)
Fire Department - Oak Grove	70,175	70,175	69,998	(177)
Rescue squad	45,000	45,000	38,260	(6,740)
Rural fire	25,000	25,000	31,365	6,365
Sheriff	1,996,600	1,996,600	2,029,284	32,684
Victims assistance	76,160	76,160	71,321	(4,839)
Miscellaneous	-	-	18,301	18,301
	7,297,266	7,297,266	7,333,817	36,551
Public Works:				
Airport maintenance	8,500	8,500	3,340	(5,160)
Regional airport authority	19,600	19,600	27,733	8,133
Roads and bridges	799,830	799,830	838,294	38,464
Street lights	10,378	10,378	11,536	1,158
Transportation Committee/C Funds	260,000	260,000	220,745	(39,255)
	1,098,308	1,098,308	1,101,648	3,340
Sanitation:				
Convenience sites	293,520	293,520	376,260	82,740
Recycling Center	57,396	57,396	45,055	(12,341)
Transfer station	1,439,421	1,439,421	1,648,399	208,978
Waste tire disposal	40,000	40,000	32,163	(7,837)
	1,830,337	1,830,337	2,101,877	271,540
Economic Development:				
Accommodation Tax board	-	-	3,400	3,400
Clemson Extension Service	32,000	32,000	3,000	(29,000)
Development Board	146,080	146,080	157,456	11,376
Little Pee Dee River Commission	5,000	5,000	5,660	660
Northeastern Technical College	114,000	114,000	114,000	-
Oak Grove Industrial Park	-	-	1,000	1,000
Pee Dee Coalition	900	900	1,200	300
Pee Dee Regional Council of Governments	18,734	18,734	18,433	(301)

continued

DILLON COUNTY, SOUTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL -- GENERAL FUND
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget- Over
	Original	Final	Amounts	(Under)
Pee Dee Regional Transportation Authority	3,000	3,000	3,000	-
Soil Conservation Service	28,300	28,300	28,270	(30)
Tri-County Industrial Park	75,000	75,000	-	(75,000)
	423,014	423,014	335,419	(87,595)
Social Services, Health and Welfare:				
Alcohol and Drug Abuse	6,000	6,000	6,720	720
Council on Aging	38,410	38,410	35,941	(2,469)
Department of Social Services	32,000	32,000	28,063	(3,937)
Health Department	22,027	22,027	26,396	4,369
Indigent medical care	65,200	65,200	65,174	(26)
Veteran Affairs	73,242	73,242	72,815	(427)
Miscellaneous	800	800	600	(200)
	237,679	237,679	235,709	(1,970)
Culture and Recreation:				
Library	431,846	431,846	482,534	50,688
Recreation	146,735	146,735	150,664	3,929
	578,581	578,581	633,198	54,617
Debt service				
Principal retirement	91,577	91,577	91,577	-
Interest	27,019	27,019	9,211	(17,808)
	118,596	118,596	100,788	(17,808)
Capital Outlay				
General government administration	56,500	56,500	62,825	6,325
Administration of justice	4,500	4,500	-	(4,500)
Public safety and law enforcement	129,200	129,200	102,000	(27,200)
Public works	21,000	21,000	864,977	843,977
	211,200	211,200	1,029,802	818,602
Total expenditures	16,287,108	16,287,108	17,003,446	716,338
Excess (deficiency) of revenues over (under) expenditures	4,000	4,000	455,022	451,022
OTHER FINANCING SOURCES				
Transfers in	-	-	82,563	82,563
Sale of capital assets	-	-	11,367	11,367
Proceeds of long-term debt	-	-	371,310	371,310
Total other financing sources	-	-	465,240	465,240
Net change in fund balance	4,000	4,000	920,262	916,262
Fund balance, beginning of year, restated	9,111,173	9,111,173	9,111,173	-
Fund balance, end of year	\$ 9,115,173	\$ 9,115,173	\$ 10,031,435	\$ 916,262

DILLON COUNTY, SOUTH CAROLINA
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS – OTHER
POSTEMPLOYMENT BENEFITS –DEFINED BENEFIT HEALTH CARE PLAN
For the Year Ended June 30, 2011

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial accrued liability (AAL) (b)	Total unfunded actuarial liability (UAAL) (b)-(a)	Actuarial value of assets as percentage of actuarial liability (Funded Ratio) (a/b)	Annual Covered Payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
2009	7/1/2008	-	\$ 1,780,268	\$ 1,780,268	0%	\$ 6,873,168	25.9%
2010	7/1/2008	-	\$ 1,780,268	\$ 1,780,268	0%	\$ 6,883,843	25.9%
2011	7/1/2010	-	\$ 2,175,486	\$ 2,175,486	0%	\$ 6,804,655	32.0%

Fiscal 2009 was the year of implementation of GASB Statement No. 45 applicable to policies allowing retirees to participate in a government's health insurance plan. The County has elected to implement the standard prospectively. Accordingly, data for prior years which would provide trend information are not available. The County's next required actuarial valuation will be prepared as of June 30, 2012 to be reported in the fiscal year ending June 30, 2013

SUPPLEMENTARY INFORMATION

DILLON COUNTY, SOUTH CAROLINA
COMBINING BALANCE SHEET – OTHER GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue Fund	Debt Service Fund	Total Non-major Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,657	\$ -	\$ 1,657
Receivables, net of allowance for doubtful accounts	801	68,208	69,009
Due from other funds	877,969	1,192,838	2,070,807
Total assets	<u>\$ 880,427</u>	<u>\$ 1,261,046</u>	<u>\$ 2,141,473</u>
Liabilities and Fund Balances			
Liabilities:			
Deferred revenue	\$ -	\$ 45,772	\$ 45,772
Due to other funds	8,556	-	8,556
Total liabilities	<u>8,556</u>	<u>45,772</u>	<u>54,328</u>
Fund Balances:			
Unassigned	(8,556)	-	(8,556)
Restricted for:			
Administration of justice	136,167	-	136,167
Public safety and law enforcement	744,260	-	744,260
Debt service	-	1,215,274	1,215,274
Total fund balances	<u>871,871</u>	<u>1,215,274</u>	<u>2,087,145</u>
Total liabilities and fund balances	<u>\$ 880,427</u>	<u>\$ 1,261,046</u>	<u>\$ 2,141,473</u>

DILLON COUNTY, SOUTH CAROLINA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) –
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	Special Revenue Fund	Debt Service Fund	Total Non-major Governmental Funds
Revenues			
Property taxes	\$ -	\$ 1,141,337	\$ 1,141,337
Intergovernmental revenue	464,156	-	464,156
Gifts and grants	31,896	-	31,896
Fines, fees, and forfeitures	217,766	-	217,766
Total revenues	713,818	1,141,337	1,855,155
Expenditures			
Current			
Administration of justice	1,676	-	1,676
Public safety and law enforcement	140,617	-	140,617
Economic development	415,603	-	415,603
Debt Service			
Principal retirement	-	1,051,079	1,051,079
Interest	-	140,314	140,314
Capital Outlay			
Public safety and law enforcement	39,698	-	39,698
Total expenditures	597,594	1,191,393	1,788,987
Excess (deficiency) of revenues over (under) expenditures	116,224	(50,056)	66,168
Other financing sources (uses)			
Transfers out	(82,563)	-	(82,563)
Total other financing sources (uses)	(82,563)	-	(82,563)
Net change in fund balances	33,661	(50,056)	(16,395)
Fund balances, beginning of year, restated	838,210	1,265,330	2,103,540
Fund balances, end of year	\$ 871,871	\$ 1,215,274	\$ 2,087,145

DILLON COUNTY, SOUTH CAROLINA
COMBINING BALANCE SHEET – SPECIAL REVENUE FUNDS
June 30, 2011

	Workforce Investment Act Fund	Sheriff Discretionary Fund	Accommodations Tax Fund	Clerk of Court Child Support Discretionary Fund	Federal Grants	Total
Assets						
Cash and cash equivalents	\$ -	\$ 1,657	\$ -	\$ -	\$ -	\$ 1,657
Receivables, net of allowance for doubtful accounts	-	-	-	801	-	801
Due from other funds	-	742,603	-	135,366	-	877,969
Total assets	\$ -	\$ 744,260	\$ -	\$ 136,167	\$ -	\$ 880,427
Liabilities and Fund Balances (Deficit)						
Liabilities:						
Due to other funds	\$ -	\$ -	\$ 8,556	\$ -	\$ -	\$ 8,556
	-	-	8,556	-	-	8,556
Fund Balances (Deficits)						
Unassigned	-	-	(8,556)	-	-	(8,556)
Restricted for:						
Administration of justice	-	-	-	136,167	-	136,167
Public safety and law enforcement	-	744,260	-	-	-	744,260
Total fund balances (deficits)	-	744,260	(8,556)	136,167	-	871,871
Total liabilities and fund balances (deficits)	\$ -	\$ 744,260	\$ -	\$ 136,167	\$ -	\$ 880,427

DILLON COUNTY, SOUTH CAROLINA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) –
SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2011

	Workforce Investment Act Fund	Sheriff Discretionary Fund	Accommodations Tax Fund	Clerk of Court Child Support Discretionary Fund	Federal Grants	Total
Revenues						
Intergovernmental revenue	\$ 260,125	\$ -	\$ 57,254	\$ 32,567	\$ 114,210	\$ 464,156
Gifts and grants	-	6,896	-	-	25,000	31,896
Fines and forfeits	-	217,766	-	-	-	217,766
Total revenues	260,125	224,662	57,254	32,567	139,210	713,818
Expenditures						
Current						
Administration of justice	-	-	-	1,676	-	1,676
Public safety and law enforcement	-	58,242	-	-	82,375	140,617
Economic development	274,905	-	55,891	-	84,807	415,603
Capital outlay						
Public safety and law enforcement	-	39,698	-	-	-	39,698
Economic development	-	-	-	-	-	-
Total expenditures	274,905	97,940	55,891	1,676	167,182	597,594
Excess (deficiency) of revenues over (under) expenditures	(14,780)	126,722	1,363	30,891	(27,972)	116,224
Other financing sources (uses)						
Transfers out	(31,928)	-	-	-	(50,635)	(82,563)
Total other financing sources (uses)	(31,928)	-	-	-	(50,635)	(82,563)
Net change in fund balances	(46,708)	126,722	1,363	30,891	(78,607)	33,661
Fund balances (deficits), beginning of year, restated	46,708	617,538	(9,919)	105,276	78,607	838,210
Fund balances (deficits), end of year	\$ -	\$ 744,260	\$ (8,556)	\$ 136,167	\$ -	\$ 871,871

DILLON COUNTY, SOUTH CAROLINA
SCHEDULE OF COURT FINE AND ASSESSMENT ACTIVITY AND EXPENDITURES FOR
VICTIMS SERVICES -- REQUIRED BY STATE LAW
For the Year Ended June 30, 2011

	General Sessions Court	Magistrates Courts	Probate Court	Total
Fines and fees collected	\$ 320,417	\$ 424,007	\$ 10,900	\$ 755,324
Assessments collected	1,577	388,918	-	390,495
Surcharges collected	1,273	186,742	-	188,015
Fines and fees retained by County	(159,537)	(419,936)	-	(579,473)
Assessments retained by County	-	(29,446)	-	(29,446)
Surcharges retained by County	-	(9,415)	-	(9,415)
Fines and assessments remitted to State Treasurer	<u>\$ 163,730</u>	<u>\$ 540,870</u>	<u>\$ 10,900</u>	715,500
Fines and assessments payable to State Treasurer's Office on June 30, 2011				<u>(85,859)</u>
				629,641
Spent on victims' services:				
From assessments and surcharges				38,861
From other funds				<u>32,460</u>
				<u>\$ 71,321</u>

DILLON COUNTY, SOUTH CAROLINA
SCHEDULE OF LIBRARY REVENUES AND EXPENDITURES BY SOURCE OF FUNDS –
REQUESTED BY THE STATE LIBRARY
For the Year Ended June 30, 2011

Source of Funds	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Local sources				
County funds	\$ -	\$ 381,046	\$ 381,046	\$ -
Fees and fines	6,794	8,097	10,870	4,021
E-rate funds	248	10,744	10,744	248
American Dream grant	995	-	-	995
Interest	29	-	-	29
Gifts and donations	250	-	-	250
Total local sources	8,316	399,887	402,660	5,543
State sources				
State aid	-	60,000	60,000	-
Total state sources	-	60,000	60,000	-
Federal Sources				
ARRA State Fiscal Stabilization Fund -				
Government Services, Recovery Act (CFDA No. 84.397)	-	8,980	8,980	-
Grants to States (CFDA No. 45.310)	-	11,500	11,500	-
Total federal sources	-	20,480	20,480	-
Total all sources	\$ 8,316	\$ 480,367	\$ 483,140	\$ 5,543

REGULATORY SECTION

DILLON COUNTY, SOUTH CAROLINA
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<i>WIA-Cluster</i>			
Department of Labor Pass-through Programs from:			
Pee Dee Regional Council of Governments			
WIA Adult Program	17.258	0A507K1	\$ 143,358
WIA Dislocated Workers	17.278	0D507K1	101,117
<i>Total WIA Cluster</i>			<u>244,475</u>
 Department of Agriculture Pass-through Programs From:			
South Carolina Forest Service			
Cooperative Forestry Assistance	10.664	P120100VFA10	1,250
<i>Total Department of Agriculture Programs</i>			<u>1,250</u>
 Department of Housing and Urban Development Pass-through Programs From:			
South Carolina Department of Commerce			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	4-RP-08-007	34,277
<i>Total Department of Housing and Urban Development Programs</i>			<u>34,277</u>
 Department of Justice Direct Programs:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0910	28,333
<i>Subtotal Department of Justice Direct Programs</i>			<u>28,333</u>
Department of Justice Pass-through Programs From:			
South Carolina Department of Public Safety			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	1G09007	96,424
Edward Byrne Memorial Justice Assistance Grant Program	16.738	1G10022	51,254
<i>Subtotal Department of Justice Pass-through Programs</i>			<u>147,678</u>
<i>Total Department of Justice</i>			<u>176,011</u>
 Department of Labor Pass-through Programs From:			
Pee Dee Regional Council of Governments			
Trade Adjustment Assistance	17.245	9T507K1	15,650
<i>Total Department of Labor</i>			<u>15,650</u>
 National Foundation on the Arts and the Humanities, Office of Library Services			
Pass-through Programs From:			
South Carolina State Library			
Grants to States	45.310	N/A	11,500
<i>Total National Foundation on the Arts and the Humanities, Office of Library Services</i>			<u>11,500</u>

Continued

DILLON COUNTY, SOUTH CAROLINA
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Education Pass-through Programs From:			
South Carolina State Library			
ARRA State Fiscal Stabilization Fund - Government Services, Recovery Act	84.397	H8701ARRA111	8,980
Total Department of Education			<u>8,980</u>
Department of Health and Human Services Pass-through Programs From:			
South Carolina Department of Social Services			
Child Support Enforcement	93.563	N/A	1,676
Total Department of Health and Human Services			<u>1,676</u>
Department of Homeland Security Pass-through Programs From:			
South Carolina Emergency Management Division			
Emergency Management Performance Grants	97.042	9EMPG01	14,351
Emergency Management Performance Grants	97.042	10EMPG01	24,634
			38,985
South Carolina Law Enforcement Division			
Homeland Security Grant Program	97.067	8CCP01-Dillon	3,762
Total Department of Homeland Security			<u>42,747</u>
Total Expenditures of Federal Awards			<u>\$ 536,566</u>

The accompanying notes are an integral part of this schedule.

DILLON COUNTY, SOUTH CAROLINA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes federal grant activity of the City of Sumter under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Dillon County, it is not intended to and does not present the financial position, changes in net assets or cash flows of Dillon County.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

County Council
Dillon County
Dillon, South Carolina

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dillon County, South Carolina (the County), as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items FS2011-01 and FS2011-02 in the schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County in a separate letter dated November 14, 2011.

Dillon County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, County Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
November 14, 2011

Clark Erustace Wagner, CPA, PA



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

County Council
Dillon County
Dillon, South Carolina

Compliance

We have audited Dillon County, South Carolina's (the County) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2011. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, County Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
November 14, 2011

Clark Eustace Wagner, CPA, PA

DILLON COUNTY, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Summary of Auditors' Results

- | | |
|--|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| 2. Internal controls over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | No |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|--|-------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | No |
| 2. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133? | No |

4. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
16.738	Edward Byrne Memorial Justice Assistance Grant Program
17.278	WIA Dislocated Workers
17.258	WIA Adult Program

- | | |
|---|-----------|
| 5. Dollar Threshold used to distinguish between Type A and B programs? | \$300,000 |
| 6. Auditee qualified as a low-risk auditee under Section 530 of Circular A-133? | No |

DILLON COUNTY, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
June 30, 2011

B. FINANCIAL STATEMENT FINDINGS

FS2011-01 Lack of Adequate Internal Controls
Type: Material Weakness

Criteria: Sound internal control requires that management establish a control environment in which it assesses the risks of where financial statement fraud and error can occur and where assets can be stolen, establish control activities to prevent both, and establish a flow of information and communication to facilitate financial reporting and to monitor whether controls are effective and functioning as designed.

Condition: Dillon County has not developed all internal controls required to safeguard the County's assets and to ensure accurate and timely financial reporting. During the current year, the County did not properly record capitalized assets and did not fully accrue all revenues and expenditures. These matters were discovered by the CPA consultant hired by the County, but the internal detect controls failed to identify these matters during the year. Sound internal controls require timely detection of these matters, not only annual detection.

Cause: Sound internal control requires that staff be properly trained about the nature of accounts in the County's accounting records and staff time needs to be available for reviewing the County's accounting records. Further, specific employees need to be formally designated as responsible for maintaining the accuracy of the accounting records and then held accountable for duties officially assigned to them. This finding indicates that these key components of internal control are missing in the County's management.

Recommendation: We have recommended that the County hire a Finance Director to oversee internal controls and financial reporting. The County continues to lack a single person specifically assigned the duty of overseeing the accounting and finance function. The County relies on its elected Treasurer to perform many of a Finance Director's typical duties, but as an elected official, the Treasurer is not formally obligated to perform these tasks. In addition, the various accounting functions remain fragmented and are not centrally located. The County did contract with a CPA firm to provide year-end assistance to ready the County books for audit. This contractual arrangement has minimized the number and types of journal entries we have had to propose as a result of our audit and it also has enabled the County to prepare complete financial statements for audit by us. But outside of this arrangement, it appears the County has done little to address the concerns of our previous year's findings.

Response: We recommend that the County seek to establish some form of continuity in the County Administrator role and also seek to identify a skilled person to oversee the financial operations of the County. Additionally, the County should consider expanding the role of the CPA consultant to incorporate some accounting procedures and training objectives through out the year.
Dillon County management, under the leadership of a new County Administrator, has reviewed the finding and will make every attempt to update and promote a financial environment that is indicative of what is defined as a sound internal control environment in order to produce financial reports. Dillon County has plans under the new administration to realign our current staff to insure a sound environment that has more controls. Additional staff resources will be allocated to the finance department, internal controls will be reviewed by management, and appropriate changes made to address the concerns expressed by the auditor.

DILLON COUNTY, SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
June 30, 2011

B. FINANCIAL STATEMENT FINDINGS, Continued

FS2011-02	Lack of Adequate Controls over Payroll and Accounts Payable Processing
Type:	Material Weakness
Criteria:	Internal controls over disbursement functions should provide sufficient controls and segregation of duties to mitigate the likelihood of fraud occurring and not being detected during the normal course of staff performing their assigned job duties.
Condition:	The County has not sufficiently restricted access to various components of the payroll and accounts payable software modules, nor have they provided sufficient information to allow appropriate personnel to detect fraud were it to occur.
Cause:	Due to the County's use of an automated check signing machine, the likelihood of fraud occurring is increased substantially. Other components of internal control must be implemented and enhanced to address the inherent fraud risks present when automated check signing is used. Current controls do not sufficiently address those risks.
Recommendation:	We recommend that the County review the software access privileges for staff involved in the accounts payable and payroll processing functions to limit access to vendor and employee master files. Additionally, the transaction approval and check signing functions should be closely reviewed to ensure that controls over check issuance are strengthened. Finally, the bank reconciliation process should include a step to compare approved checks issued to those clearing the bank. The current process simply compares the amounts and check numbers to what is in the accounting system. A fraudulent transaction would be never detected in this process. The County may also consider utilization of the positive pay service offered by its bank to increase its detect capabilities.
Response:	The County intends to review the internal controls over the payroll and accounts payable disbursement cycles to identify gaps in internal control. Through the addition of personnel in the finance department, changes in software security privileges, the addition of steps to the disbursement cycles, and realignment of duties within the department, these concerns will be addressed.

C. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported.

**DILLON COUNTY, SOUTH CAROLINA
SUMMARY SCHEDULE OF PRIOR FINDINGS
June 30, 2011**

2009-1 Lack of Adequate Internal Control

See current year FS2011-01.